



New and Used Ideas for State Tax Systems

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Agenda

Areas for consideration of new and used ideas

- I. Administrability
- II. Equity and Fairness
- III. Federal Connection
- IV. Modernization
- V. Revenue Considerations
- VI. Accountability and Transparency

Moving forward

MOVING FORWARD?

state tax notes™

See articles of 3/7/16 and 5/16/16.

Goals

Help state tax systems reflect ...

- 21st century ways of living and doing business
- Reflect principles of good tax policy



Example
Nexus checklist
to know you
definitely have it
or don't.

That feeds into
line 35 of Form
104.

Why not?

Use a multiple of the child and dependent care credit computed on federal Form 2441 (2 pages long)?

Line 35. Enter 20% of line 31 of IRS Form 2441 \$_____

I. Administrability

A. Simplify commonly encountered rules

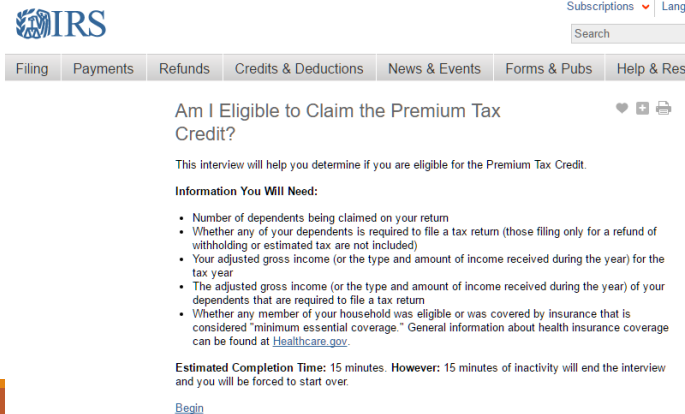
- ❖ Merge compliance forms where possible
 - ❖ Example - Use tax assessment on personal income tax form.
- ❖ Be sure compliance activity meets the need
- ❖ Ask practitioners for ideas

I. Administrability

B. STREAMLINE AND SIMPLIFY VIA TECHNOLOGY

Online interactive tools

Apps



The screenshot shows the IRS website interface. At the top, there's a navigation bar with links: Filing, Payments, Refunds, Credits & Deductions, News & Events, Forms & Pubs, and Help & Res. Below this is a search bar and a 'Subscriptions' dropdown. The main content area is titled 'Am I Eligible to Claim the Premium Tax Credit?'. It includes a brief description of the tool's purpose and a list of information needed to use it, such as the number of dependents, adjusted gross income, and health insurance coverage. A 'Begin' link is at the bottom of the section.



I. Administrability

C. Allow checklist safe harbor determinations

Example – UK employment status tool

The ESI outcome

When you have answered all the questions, the ESI tool will provide it's indication of the worker's employment status. You can rely on the ESI outcome as evidence of a worker's status for tax/NICs/VAT purposes if both of the following apply:

1. your answers to the ESI questions accurately reflect the terms and conditions under which the worker provides their services
2. the ESI has been completed by an engager or their authorised representative (if the tool has been completed by or on behalf of a worker the result is only indicative)

However, you should download and print or save the PDF bearing the 14 digit ESI reference number from the summary of outcome screen. If the worker's employment status is questioned in the future, HMRC will only be bound by the ESI outcome if this document can be produced.

Tool is an
online
questionnaire.

<https://www.gov.uk/guidance/employment-status-indicator>

I. Administrability

D. Avoid new complexities

- ❖ Moratorium on new tax breaks
- ❖ Make simplification a priority



II. Equity and Fairness

A. Find inequities

B. Determine desired levels of progressivity

C. Do longstanding justifications for special rules make sense today?

- Examples

- Sales tax exemption for food
- Not taxing services
- Tax breaks that primarily benefit high income or taxpayers who don't need them
- Shifting from income taxes to sales tax – makes the system more regressive

	Total taxes paid as a percentage of income				
City	\$25,000	\$50,000	\$75,000	\$100,000	\$150,000
Anchorage, AK	8.7	4.4	3.8	3.2	2.7
Atlanta, GA	13.1	9.1	9.4	9.8	9.3
Columbus, OH	11.9	9.1	9.6	10.0	9.7
Los Angeles, CA	11.0	10.6	10.1	10.3	10.3
Milwaukee, WI	9.9	10.8	10.5	10.8	10.0
New York City, NY	11.8	10.3	10.9	11.7	12.1
Average	11.0	8.4	8.4	8.9	8.6

III. Federal Connection

Where bound to feds, tell them if it's not working!

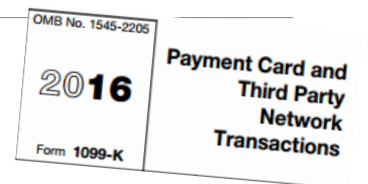
- Example – high filing threshold for 1099-K

Watch what Congress is working on that state might use to its advantage

- Examples – repatriation holiday, BEPS activities, corporate integration, VMT tax

Let Congress know concerns about tax reform

- Example – House Republican Tax Reform Blueprint (6/24/16) – suggests moving to consumption tax
 - What is the possible impact on tax-exempt bonds?
 - Fringe benefits offered to gov't employees?
- Example – Relevance of loss of low-income housing credit? How can feds still help states?



IV. Modernization

A. Find and Address Out-of-Date Tax Rules

- ❖ Changes in personal consumption
- ❖ Helping seniors
- ❖ Energy incentive conflicts
- ❖ Roads and transit
- ❖ New economy
- ❖ Freelancing



Taxes for Freelancers

This publication is designed to assist individuals who might describe themselves as contractors, freelancers, "gig" workers or self-employed entrepreneurs. If you receive Form 1099-MISC or 1099-K, this publication includes information you need to be sure you are a tax compliant business operator. It explains how Kansas taxes apply to your activities. It explains income taxes, employment taxes, sales taxes and local taxes.

Use this guide as a supplement to information about Form K-40, Individual Income Taxes.



Also needed for other new economy activities:

- Residential rentals (such as via Airbnb).
- Using virtual currency.
- E-commerce (such as selling via eBay).
- Marijuana operations.

Disclaimer:
Not a real pub.

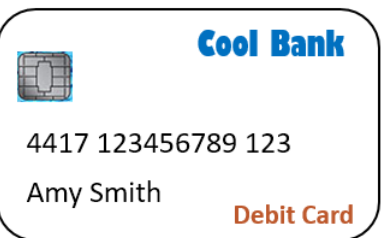
IV. Modernization

B. Use Modern Technology

- ❖ See what private sector does.
- ❖ But unlike private sector, need to help those not connected to the Internet.



Can you use it for tax payments and refunds?



How does Department of Revenue website compare to that of

- Google
- Apple
- Uber
- Bank reaching out to millennials

How easy is it to find the key things users are looking for?

What are your users looking for?

IV. Modernization

C. Have a Futurist Focus

- ❖ Gather taxpayer knowledge and ideas
- ❖ IT and digital initiatives
- ❖ Promote futurist activities and thinking
- ❖ Perform regular literature reviews to find new ideas

Take a look and continue to track ...

- Tech as solution to ease regulatory compliance.
 - Example - <https://techcrunch.com/2016/07/11/can-the-airbnb-regulatory-nightmare-be-solved-with-more-tech/>
- Uses of the Blockchain
 - Example – banks - <http://fortune.com/2016/06/23/ripple-blockchain-banks/>
 - Digital currency - <https://medium.com/chain-inc/why-central-banks-will-issue-digital-currency-5fd9c1d3d8a2#.c6yo5wsg3>
- “Finance in Flux: The Technological Transformation of the Financial Sector” – June 2016 conference sponsored by IMF, Federal Reserve and World Bank Group
- White House Fintech conference June 2016
 - <https://www.whitehouse.gov/blog/2016/06/10/future-finance-now>
- “nearly half of CEOs expect their companies to be transformed into a significantly different entity within the next 3 years.”
 - KPMG survey - <https://home.kpmg.com/content/dam/kpmg/pdf/2016/06/2016-global-ceo-outlook.pdf>
- Millennial perspectives and expectations
 - Example - <http://www.millennialdisruptionindex.com/>
- “KC is a smart city”
 - <http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2016/04/26/what-is-a-smart-city>

V. Revenue Considerations

A. Have Useful Data Readily Available

- ❖ Dashboard data approach
- ❖ Require assessment of revenue estimates

V. Revenue Considerations

B. Find Revenue Lost by Tax Gaps and Unnecessary Tax Expenditures

- ❖ Measure tax gap and use that info
- ❖ Make it simple and mandatory to pay use tax

Step 8:	22	Household employment tax. See instructions.	22	_____	.00
Other	23	Use tax on internet, mail order, or other out-of-state purchases from			
Taxes		UT Worksheet or UT Table in the instructions. Do not leave blank.	23	_____	.00

Illinois IL-1040

- ❖ Generate revenue through regular review and modification to tax expenditures

How much spending is in the tax system?

Federal gov't – tax expenditures exceed \$1 trillion which is about same as total discretionary spending.

Oregon legislature reported in 2009:


“The state of Oregon currently spends more on tax expenditures, over \$30 billion per biennium, than it spends on education, healthcare and public safety combined.”

<http://21stcenturytaxation.blogspot.com/2009/08/tax-expenditures-what-oregon-did-should.html>



V. Revenue Considerations

C. Avoid Budget Problems

- ❖ Avoid earmarking new taxes
 - ❖ Avoid moving too fast on tax cuts and use budget stabilization funds
 - ❖ Prepare for marijuana revenue
- 

VI. Accountability & Transparency

A. Offer informative taxpayer receipts

Welcome to the Utah Taxpayer Receipt

Enter your state income tax and sales tax payments to discover where and how your tax money is being spent.

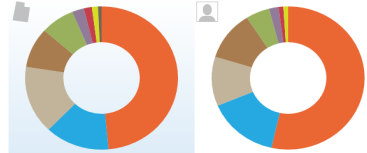
State Income Tax: \$3,000.00

State Sales Tax: \$1,439.00

Estimate my sales tax

Calculate my Taxpayer Receipt

Your Taxpayer Receipt
for the fiscal year ending
June 30, 2017



Programs & Services	Statewide Spending of Sales & Individual Income Taxes	Your Sales & Individual Income Taxes by Category
Public Education	\$2,839,588,000.00 46.3%	\$2,350.09 53%
Higher Education	\$859,653,000.00 14%	\$645.19 15%
Social Services	\$847,192,000.00 13.8%	\$490.98 11%
Infrastructure	\$833,502,000.00 13.6%	\$504.04 11%
Criminal Justice	\$426,213,000.00 7%	\$237.52 5%
Economic Development	\$127,405,000.00 2.1%	\$77.99 2%
Environment & Natural Resources	\$97,777,000.00 1.6%	\$56.06 1%
Elected Officials	\$68,855,000.00 1.1%	\$46.37 1%
General Government	\$30,983,000.00 0.5%	\$17.97 0%
Total	\$6,130,920,000 100%	\$4,439.00 100%

<http://www.thetaxadviser.com/newsletters/2016/apr/transparency-for-individual-taxes.html>

Messaging to help transparency



**ONLINE
DOESN'T MEAN TAX FREE**

Utah State Tax Commission
Utah Individual Income Tax Return
All State Income Tax Dollars Fund Education

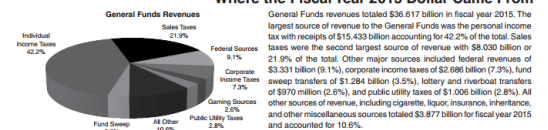
2015
TC-40

Simple data to help transparency



STATE OF ILLINOIS
COMPTROLLER
LESLIE GEISSLER MUNGER

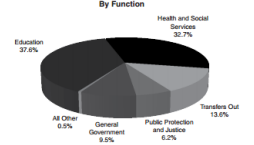
Where the Fiscal Year 2015 Dollar Came From



How the Fiscal Year 2015 Dollar Was Spent

Expenditures from the General Funds totaled \$35.621 billion in fiscal year 2015. \$996 million less than revenues. Education encompassed the largest portion (37.6%) of the General Funds budget with fiscal year 2015 spending of \$13.377 billion including \$10.086 billion for elementary and secondary education and \$3.291 billion for higher education. Health and Social Services expenditures, which include spending for medical assistance, children and family services, the operation of mental health and developmentally disabled facilities and other related services, totaled \$11.627 billion in fiscal year 2015 accounting for 32.7% of total General Funds expenditures. Transfers out of \$4.858 billion from the General Funds primarily supported local governments and debt service payments on bonds issued. Spending for Public Protection and Justice of \$2.210 billion included spending for the operation of prisons, courts, and law enforcement. Other areas of spending included General Government (\$3.397 billion) as well as \$163 million for such things as employment and economic development, environmental assistance, refunds, and transportation related items.

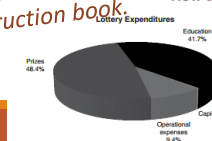
General Funds Expenditures By Function



Page 15 of 16 page II-1040 instruction book.

How the Fiscal Year 2015 Lottery Dollar Was Spent

According to the records of the State Comptroller, Illinois lottery revenues deposited into the State Treasury totaled \$1.589 billion in fiscal year 2015. Of this total, \$1.585 billion was deposited into the State Lottery Fund while over \$3.6 million from special instant games was deposited into five separate funds. Total Illinois State Lottery Fund expenditures of \$1.627 billion in fiscal year 2015 included \$678 million (41.7%) in transfers to the Common School Fund for education, \$788 million (48.4%) for prizes, \$8 million (0.5%) in transfers to the Capital Projects Fund, and \$153 million (9.4%) for operational expenses of the lottery. The largest component of operational expenditures was \$132 million for expenses of developing and promoting lottery games.



VI. Accountability & Transparency

B. Include and publicize tax expenditures in the budget report

C. Be sure tax incentives include accountability measures

- Specific goals, approvals, monitoring, clawbacks, sunsets, public disclosure, assessment, etc.

How to analyze tax expenditures

TAX EXPENDITURES: BACKGROUND AND EVALUATION CRITERIA AND QUESTIONS

Tax expenditures are provisions, such as special credits and deductions, that reduce taxpayers' tax liability. If well designed and implemented, tax expenditures can provide incentives for taxpayers to engage in particular activities or adjust for their ability to pay taxes. However, tax expenditures represent a substantial financial commitment—if Department of the Treasury estimates are summed, an estimated \$1 trillion in revenue was forgone for fiscal year 2011. Since 1994, GAO has recommended greater scrutiny of tax expenditures. This guide (GAO-13-167SP) describes criteria for assessing tax expenditures and develops questions, as summarized below, that Congress can ask about a tax expenditure's effectiveness.

1 What is the tax expenditure's purpose and is it being achieved?

- What is the tax expenditure's intended purpose?
- Have performance measures been established to monitor success in achieving the tax expenditure's intended purpose?
- Does the tax expenditure succeed in achieving its intended purpose?

2 Even if its purpose is achieved, is the tax expenditure good policy?

- Does the tax expenditure generate net benefits in the form of efficiency gains for society as a whole?

GAO, *Tax Expenditures: Background and Evaluation Criteria and Questions*, 2013

- See summary table included with these materials; see full report for details
- <http://www.gao.gov/assets/660/650371.pdf>

Tracking tax expenditures - Nevada

“a tax expenditure is created when a tax is imposed but some group, business or individual is relieved from paying the tax or a portion of the tax. Pursuant to NRS 360.137 “tax expenditure” means any law of this State that exempts, in whole or in part, certain persons, income, goods, services or property from the impact of established taxes, including, without limitation, tax abatements, tax credits, tax deductions, tax deferrals, tax exemptions, tax exclusions, tax subtractions and preferential tax rates.”

7 Categories Identified:

- 1) Abatement
- 2) Subtraction
- 3) Credit
- 4) Deduction
- 5) Exclusion
- 6) Exemption
- 7) Preferential rate

http://tax.nv.gov/uploadedFiles/taxnv.gov/Content/TaxLibrary/Tax_Expenditure_Report_2013-2014.pdf

Nevada approach to accountability

NRS 360.137 Duty of Executive Director to submit tax expenditure report; contents; requests for information.

1. On or before November 10 of each even-numbered year, the Executive Director shall submit a tax expenditure report to the Governor and the Director of the Legislative Counsel Bureau for transmittal to the Legislature and the appropriate interim committee or committees of the Legislature.
2. The report required by subsection 1 must provide, for each tax expenditure:
 - (a) A description of the tax expenditure;
 - (b) The year in which the tax expenditure was enacted;
 - (c) The purpose for which the tax expenditure was enacted;
 - (d) A summary of any amendments to the tax expenditure since it was enacted;
 - (e) To the extent that pertinent information is available, estimates of:
 - (1) The fiscal impact to this State and local governments of the tax expenditure during each fiscal year of the biennium in which the report is prepared;
 - (2) The number of taxpayers receiving benefit from the tax expenditure; and
 - (3) The revenue that would result from repeal of the tax expenditure; and
 - (f) A statement of:
 - (1) Any pertinent information which is not available to prepare the estimates required by paragraph (e); and
 - (2) The reasons for the unavailability of that information.

http://tax.nv.gov/uploadedFiles/taxnv.gov/Content/TaxLibrary/Tax_Expenditure_Report_2013-2014.pdf

Nevada – estimated “cost” of 243 tax expenditures

Fiscal year 2014		
Expenditure Category	Number in Category Who Benefit from Expenditure	Expenditure Amount
Abatement	951,693	\$197,661,644.87
Subtraction	71,681	\$18,383,243.20
Credit	237	\$36,522,038.33
Deduction	120,296	\$466,545,009.24
Exclusion	30	\$469,626.95
Exemption	384,815	\$783,942,357.71
Preferential Tax Rate	67	\$6,165,676.41
Total Expenditure amount for 2014		\$1,509,689,596.71

Needs context within overall budget and tax collections.

Example of Nevada detail

Tax Type: Sales and Use Tax		
Expenditure Name: Textbooks sold within Nevada System of Higher Education-University of Nevada Las Vegas.		Category: Exemption
Agency: Department of Taxation		
Description: The gross receipts from the sale of textbooks sold within the University of Nevada System are exempted from the taxes imposed by this chapter.		
Year Enacted: 1991		Sunset Date: None
Purpose: Legislative intent not defined in Statute.		
Who Benefits: Students and faculty members within the Nevada System of Higher Education.		
NRS: 372.287		
Summary of Amendments: [63.1:397:1955]—(Added in 1991. Proposed by the 1989 Legislature; adopted by the people at the 1990 general election, effective January 1, 1991. See Statutes of Nevada 1989, p. 821.)		
Fiscal Year 2013 Expenditures		
Beneficiary Category	# Receiving Benefit	Expenditure Amount
Other	27848	\$543,415.84
Fiscal Year Total:	27848	\$543,415.84
Fiscal Year 2014 Expenditures		
Beneficiary Category	# Receiving Benefit	Expenditure Amount
Other	28515	\$521,656.10
Fiscal Year Total:	28515	\$521,656.10

Tax Type: Property

Expenditure Name: Partial abatement of certain property taxes for buildings or structures that meet certain standards under Green Building Rating System. **Category:** Abatement

Agency: Department of Taxation Department: Local Government Services

Description: Taxes on qualifying property is abated for a duration of not more than 10 years and in an amount which varies with the Leadership in Energy and Environmental Designs (LEED) level of certification.

Year Enacted: 2007 **Sunset Date:** None

Purpose: Legislative intent not defined in Statute.

Who Benefits: Qualifying property.

NRS: 701A.110

Summary of Amendments: Added to NRS by 2007, 3375; A 2009, 988; 2011, 1654, 2067, 3474; 2013, 3186, 3197

Fiscal Year 2013 Expenditures		
Beneficiary Category	# Receiving Benefit	Expenditure Amount
Business	39	\$5,582,719.91
Fiscal Year Total:	39	\$5,582,719.91
Fiscal Year 2014 Expenditures		
Beneficiary Category	# Receiving Benefit	Expenditure Amount
Business	39	\$6,549,994.00
Fiscal Year Total:	39	\$6,549,994.00

Areas for new and used ideas



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Other areas?



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